STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**TRIMESTER 2, 2016/2017**

## BFN2244 – FINANCIAL STATEMENT ANALYSIS

(All Sections / Groups)

8 March 2017
2.30 p.m. – 4.30 p.m.
(2 Hours)

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**INSTRUCTION TO STUDENT**

1. This Question paper consists of 6 pages (including front page) with **FOUR (4)** Questions only.
2. Answer **ALL** questions.
3. Write your answers in the Answer Booklet provided.

## Question 1

The following are Summary of Income Statement and Financial position of Help Sdn. Bhd.

Income Statement for the Year Ended 31st December

| | 2016 (RM) | 2015 (RM) |
|---|---|---|
| Sales | 650,000 | 520,000 |
| Less: Cost of goods sold | (415,000) | (354,000) |
| Gross profit | 235,000 | 166,000 |
| Sales and administrative expenses | (150,000) | (114,800) |
| Interest expenses | (7,200) | (6,000) |
| Taxation | (18,000) | (14,000) |
| Less: Total expenses | (175,200) | (134,800) |
| Net Income | 59,800 | 31,200 |

Balance Sheet as at 31st December

| ASSET | 2016 (RM) | 2015 (RM) |
|---|---|---|
| Current assets: | | |
| Cash | 41,000 | 18,000 |
| Short Term Marketable securities | 18,000 | 15,000 |
| Accounts receivable (net) | 92,000 | 74,000 |
| Inventory | 84,000 | 70,000 |
| Total current assets | 235,000 | 177,000 |
| Equipment (Net) | 403,000 | 383,000 |
| Total assets | 638,000 | 560,000 |
| LIABILITIES AND OWNERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | 112,000 | 110,000 |
| Tax payable | 23,000 | 20,000 |
| Total current liabilities | 135,000 | 130,000 |
| Long-term liability: | | |
| Bond payable | 130,000 | 80,000 |
| Total liabilities | 265,000 | 210,000 |
| Owner's equity: | | |
| Ordinary share@RM5 | 150,000 | 150,000 |
| Retained earnings | 223,000 | 200,000 |
| Total owner's equity | 373,000 | 350,000 |
| Total liabilities and owners equity | 638,000 | 560,000 |

**Continued…**

**Required:**

a) Calculate the following financial ratios for the year 2015 and 2016:

(i) Days' sales in account receivables
(ii) Day's sales in account inventories
(iii) Conversion periods
(iv) Day's purchase in account payables
(v) Net trade cycle periods
(vi) Return on assets
(vii) Return on shareholder equity
(viiii)Interest coverage ratio

**(16 marks)**

b) Critically comments the company's following financial ratio

(i) Conversion period **(3 marks)**
(ii) Net trade cycle periods **(3 marks)**
(ii) Interest coverage ratio **(3 marks)**

**(Total marks: 25 marks)**

**Question 2**

a) Identify whether each of the following is an operating cash inflow (OI) or outflow (OO), investing cash inflow (II) or outflow (IO), financing cash inflow (FI) or outflow (FO) or non-cash flow item (NC).

(i) Issuance of new share
(ii) Interest received
(iii) Sales of company's office building
(iv) Cash receive from customer
(v) Decrease of account inventory
(vi) Depreciation
(vii) Increase of account payable
(viii) Acquisition of a new company
(ix) Stock buyback
(x) Loss on disposal of fixed assets
(xi) Goodwill amortization
(xii) Convert preferred stock to common stock
(xiii) Contingent liabilities

**(13 marks)**

**Continued...**

b) The following data are derived from Inti Berhad for year 2016.
**Required:**
Prepare the cash flows from **operating activities** for the year.

| | RM |
|---|---|
| Net income | 8,000 |
| Depreciation ........................................................................ | 4,000 |
| Disposal of Land ........................................................................ | 20,000 |
| Amortization of premium on bonds payable ................................ | 60 |
| Cash payment for stock buyback ................................................ | 10,000 |
| Undistributed earnings of unconsolidated subsidiaries and affiliates | 300 |
| Increase in notes payable ......................................................... | 900 |
| Increase in accounts receivable ................................................... | 800 |
| Increase in accounts payable....................................................... | 1,000 |
| Decrease in dividend payable ..................................................... | 500 |
| Increase in accounts prepaid expenses ........................................ | 800 |

**(12 marks)**
**(Total marks: 25 marks)**

## Question 3

a) You company, Taylor Berhad is studying the potential to purchase 100% of Binary Berhad at RM180,000. The above purchase consideration will be financed by issuing new shares of Taylor Berhad. Information below is provided.

| | Taylor Berhad | Binary Berhad | Binary Berhad |
|---|---|---|---|
| | Historical Value RM'000 | Historical Value RM'000 | Fair Value RM'000 |
| Current Assets | 100 | 70 | 80 |
| Land | 90 | 50 | 55 |
| Plants, net | 80 | 40 | 45 |
| Cash | 70 | 20 | 20 |
| Total assets | 340 | 170 | 200 |
| | | | |
| Current liabilities | 180 | 70 | 70 |
| Shareholders' equity | 160 | 100 | |
| | | | |
| Total Liabilities and equity | 340 | 170 | |

Prepare a consolidated balance sheet with inter-companies transactions. **(17.5 marks)**

**Continued...**

b) A ship builder sells ships with each ship selling for RM30 million. The company never starts building a ship until it receives a specific order from a customer. It takes three years to build a ship. Before the ship is constructed, the customer is required to pay a deposit of 20%. Once construction is completed and during the first three years of using the ship the company agrees to repair anything on the ship free of charge. The customer pays for the ship over a period of ten years after the date of delivery.

For each of the following alternatives, determine whether the revenue should be recognized and why?
(i) Recognize revenue when an order is received
(ii) Recognize revenue when the deposit is received
(iii)Recognize revenue when construction work starts
(iv)Recognize revenue proportionately during the four-year construction period
(v) Recognize revenue immediately after the customer takes possession of the ship
(vi)Recognize revenue only after the three year guarantee period is over

**(7.5 marks)**
**(Total marks: 25 marks)**

## Question 4

a) Under prospective analysis, discuss the factors affecting to the following projected figure.
i) Projected sales
ii) Projected depreciation
iii) Projected interest

**(9 marks)**

b) You are given the following information for Segi Company. As of year 1, the company's book value is RM50,000 and its cost of capital is 15%.

| | Year 1 RM | Year 2 RM | Year 3 RM | Year 4 RM | Year 5 RM |
|---|---|---|---|---|---|
| Sales | 122,000 | 114000 | 105,000 | 96,000 | 82,855 |
| Operating Expenses | 100,000 | 90,000 | 80,000 | 70,000 | 57,145 |
| Depreciation | 10,000 | 11,300 | 12,770 | 14,430 | 14,430 |
| Net income | 12,000 | 12,700 | 12,230 | 11,570 | 11,280 |
| Dividends | 6,000 | 6000 | 5,600 | 5,700 | 5,100 |
| Expected book value | 50,000 | 56,000 | 62,700 | 69,330 | 75,200 |
| ROCE | 0.2400 | 0.2268 | 0.1951 | 0.1669 | 0.1500 |

Dividends for year 6 and beyond are expected to remain at year 5 level.

i) Compute Company's abnormal earnings for year 1 to year 5 **(5 marks)**

ii) Use an accounting based valuation model to estimate the value of Company's equity on January 1st of year 1, year 2, year 3, year 4 and year 5 **(5 marks)**

iii) Use the Price-to-Earnings (PE) Ratio formula to determine the Price-to-Earnings (PE) Ratio on January 1st of year 2, year 3, year 4 and year 5 **(6 marks)**

**(Total marks: 25 marks)**

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